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### SOUTHEAST ASIA

3. Burmese Communist penetration of Li Mi's forces alleged by Rangoon official:

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A Burmese War Office spokesman, reiterating charges of Chinese Communist penetration of Li Mi's Nationalist forces in Burma, claims evidence that Burmese Communists as well have

infiltrated the Nationalists and in even greater numbers. In addition, rebellious Karen forces have been heavily infiltrated by Burmese Communists, and all three groups are now allied against the government.

The War Office estimates Nationalist strength in Burma at 18,000 men and believes that they are under the effective control of Li Mi.

Comment: Burmese Communist infiltration of both Nationalists and Karens, if it resulted in large-scale coordinated military efforts, would seriously strain government forces, which have been hard pressed to conduct a concerted campaign against even one insurgent group.

The number of Nationalists in Burma is believed to be far below 18,000, and there is evidence that Li Mi does not control the bulk of these forces.

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NEAR EAST - AFRICA

4. Shah of Iran reportedly yields to Mossadeq:

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Minister of Court Ala told Ambassador Henderson on 23 February that Prime Minister Mossadeq had promised not to press his grievances against the Shah for the time being.

The Shah reportedly promised to make it clear that the army must take its orders from Mossadeq. He agreed to stop seeing persons known to be critical of the Prime Minister, and to discuss the problem of distributing crown lands to peasant tenants, one of the issues raised by Mossadeq.

Comment: The Shah's reported capitulation came after several tense days during which Mossadeq threatened to resign and publicly to denounce the Shah.

The Prime Minister's apparently successful maneuvers were designed primarily to strengthen his own position, possibly in anticipation of a breakdown in the current oil talks. Mossadeq's success also demonstrates to opposition elements that he still maintains control.

5. Israel urges US not to delay Middle East defense preparations:

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Prime Minister Ben-Gurion of Israel has suggested to Ambassador Davis that in the absence of peace in the Near East, the United States should make arrangements with individual countries, relying primarily on Turkey and Israel.

Ben-Gurion emphasized the contribution which Israel could make. He made a plea for early consideration of an Israeli request for military aid from the United States and hoped that American support of Israel would be increased.

Comment: Israel's present anxiety to push Middle East defense plans probably stems in part from its concern over the recent diplomatic break with the Soviet Union. The imminence of Anglo-Egyptian talks over the Suez base and Middle East defense issues may also have inspired the current approach.

The Ben-Gurion government has feared that its interests might be neglected in the course of Western efforts to establish a Middle East defense system with the Arab states. Arab hostility has prevented any Western consideration that Israel might become a founding member of a regional defense organization.

#### EASTERN EUROPE

6. Hungarian economic situation seen deteriorating:

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[redacted] The American Legation in Budapest reports indications that Hungary's economic situation is worsening. The deterioration is underscored by heavy press criticism of key industries and agriculture.

The Legation anticipates a further decline in the standard of living, a "greater gulf" between the people and the regime, and increased use of terror tactics. The Legation predicts that important areas of industry and agriculture will continue to fall below their Five Year Plan targets.

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